

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2003-812

December 31, 2003

BANGOR HYDRO-ELECTRIC COMPANY
Application for Approval of Issuance of
Securities (§902, §1101) (\$50 Million in
First Mortgage Bonds)

ORDER APPROVING
ISSUANCE OF
SECURITIES

WELCH, Chairman; DIAMOND and REISHUS, Commissioners

I. SUMMARY

On October 28, 2003, Bangor Hydro-Electric Company (BHE or the Company) filed with the Commission its application for authority to issue \$50 million in “replacement” First Mortgage Bonds to the holders of existing First Mortgage Bonds. There will be no new funding for the Company as a result of this issuance, nor will there be any change in repayment terms for BHE on the outstanding amount. BHE is offering the replacement bonds in order to consolidate reporting and administration of its financing instruments and expects to realize some cost savings as a result. This Order approves BHE’s request.

II. BACKGROUND & ANALYSIS

BHE’s original Mortgage and Deed of Trust Securing First Mortgage Bonds was issued in 1936 and was amended in 1945. The Company maintains that many of the terms of this Mortgage have become antiquated and are somewhat “burdensome” to administer. In 1995, BHE issued its General and Refunding Mortgage and Deed of Trust, a mortgage instrument it claims to be easier, and thus less costly, to administer. BHE states that consolidating its bond issuances under the 1995 instrument will save it \$15,000 in direct Trustees fees currently paid to Citibank N.A. In addition, the Company expects to realize further savings in other out-of-pocket costs paid to Citibank, and internal administrative costs arising from producing special accounting reports and legal fees related to obtaining mortgage releases.

As an inducement for the existing bondholders to agree to this exchange, the Company has offered to enhance certain financial covenants relative to their current levels. The proposed enhanced covenant levels are as follows: Consolidated Fixed Charge (often called “Interest Coverage”) Ratio of not less than 1.75 to 1.00 (or “1.75X”); a Common Equity Ratio of not less than 30%; Consolidated Net Worth of not less than \$100 million. For the twelve months ended September 30, 2003, BHE’s Fixed Charge Ratio was 3.72X, its Common Equity ratio was 54.5% (42.6% if Goodwill is excluded) and its Consolidated Net Worth was \$206.5 million (\$128.1 million if Goodwill is excluded), therefore the Company is currently meeting all of the proposed covenant

requirements. In addition, BHE has pledged that it will restrict the issuance of future mortgage bonds to 50% of the value of its property, which is a reduction from the current maximum level of 75%.

We believe that the proposed bond exchange offers benefits to the Company and its Bondholders and, at the same time, the transaction does not expose the BHE's ratepayers to additional cost or additional risks and we therefore approve the Company's request.

Having reviewed the application of the Company, together with data filed in support of it, it is the opinion of the Commission that the proceeds of the issuance of the bonds are required in good faith for the purposes enumerated in 35-A M.R.S.A. §901. Although BHE did not specifically request Commission approval under 35-A M.R.S.A. §1101, the fact that it seeks to mortgage real property requires our approval. Therefore BHE is also authorized to mortgage such necessary property. In approving this securities issue, consistent with normal practice and pursuant to §902(4), the Commission does not imply approval of the Company's capital needs or capitalization ratio for ratemaking purposes, nor does this order limit or restrict the powers of the Commission in determining or fixing any rate.

Accordingly, we

ORDER

1. That Bangor Hydro-Electric Company is hereby authorized to issue up to \$50 million in First Mortgage Bonds pursuant to its 1995 General and Refunding Mortgage and Deed of Trust in order to retire \$50 million in First Mortgage Bonds originally issued under its 1936 First Mortgage and Deed of Trust, as described in this Order.

2. That the Company report to this Commission, in writing, its doings pursuant to this order within sixty (60) days of the date of the closing of this transaction.

3. That a copy of this Order be mailed to interested parties and this Docket be closed.

Dated at Augusta, Maine, this 31st day of December, 2003.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Diamond
 Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 21 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.